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FAMILY FARM CORPORATION

MANAGING AGRICULTURAL TECHNOLOGY FOR PROFIT

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FAMILY FARM CORPORATION

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March 12, 1985
Alice Brown

FAMILY FARM CORPORATION

Good afternoon. When I was asked to be on this panel, I was told that my knowledge and life experiences in farming were valuable and worth sharing with you. I was also informed that this group is highly motivated and have above average management ability, so some of the information I will give you will be repetitive and basic, but I hope you will learn new things from me as well. First of all, I was an Operating Room nurse in Oklahoma who got lucky enough to marry an Alberta Farmer. This of course changed my life greatly plus moving me into a totally new environment and lifestyle. I guess my greatest motivations were curiosity and survival. Our family farm was owned by Bert's parents and they incorporated it into Brownhill Farms Ltd. in the summer of 1968. Bert, being the only son with one married sister and one sister working in other areas, was the logical farmer in the group, and equal shares were issued to all three children at that time and Bert was named Manager. Our reasons for incorporating were simple. If we had not incorporated and Bert's parents had died, the farm would have had to be sold to pay the inheritance and income taxes. With incorporation, the surviving shareholders could continue to operate the business. This was before rollovers or any other method of passing the family farm down to the survivors. At that time there were also tax advantages in salaries for Bert and myself as well as legitimate business expenses that could be used against the revenue. During the ensuing years, the tax laws have changed and most of these advantages are now available to family farms as well. In the beginning, Bert and his sisters owned all the common shares, his parents held the voting shares and consequently maintained their control over the operation and finances of the corporation. Through the years, Bert acquired all the common shares and eventually the voting shares as well. At that time I was given shares in the corporation and we now are the only shareholders. Now this sounds neat, tidy and easy to do, but it involved many family conferences, discussion, disagreements and lots of give and take from everyone concerned to make it work. Our situation was also unique, in that the shareholders outside of Bert and myself, were not dependent on the farm for their livelihood and made it easier for the farm to survive in the economic stresses

of agriculture.

Because of the incorporation, it put our farm in a completely different category in regards to taxes, credit arrangements, grain advances, co-operative memberships and numerous other areas. We had to train our minds to think of the corporation as a separate entity. Even though we are the only shareholders and it is our main source of income, we still think of the "company" separately and specially. The lending institutions require many more "piles" of documents, and papers all with company seals for almost everything we do. There are always different forms for farming companies when we go to apply for government plans, bank loans or grain advances. It gets heavily involved and bogged down in bureaucratic processes and takes about three times as long to handle.

Two years ago when Alberta required all businesses to re-incorporate, we consulted with our lawyer and accountant about "de-incorporating" at that time. They advised against this as it would be looked upon as a sale and capital gains would have to be paid without any revenue from the sale to ourselves. All in all our corporation works very well for us and makes bookkeeping well defined and easy to divide farm expenses and revenue from personal items. For any bookkeepers in this group -- company receipts and invoices take on more importance and seem to be treated with greater respect. I have been told that to incorporate now is not as advantageous because of having to report a capital gain on all of the assets incorporated.

The best advice I can pass on to any of you who are considering incorporation is to make sure you get experts in agriculture law and finance and develop a complete understanding and communication among the potential shareholders as to operation and management of the corporation. This is probably the most difficult part due to the nature of independence in farmers and their relationship to their children. Farmers have a tendency to not trust the younger generation to be able to continue without destroying all of their parents hard work. You must communicate freely and without hostility in this transition. There are now workshops available in dealing with the two or three family -- farm environment.

In the last four years, one of the major areas we have noticed changing is credit management. We had operated with a Line of Credit

with our bank for several years when the lending institutions began to change rules on us frequently. They began to require a formal plan of operations, cash and expense flow projections, and inventories regularly. Fortunately, we had encountered these forms in previous areas and they were not completely unfamiliar to us, but they sure are confusing and tedious to complete. We are now on our fourth year of this complete planning, and as I look back, I can honestly say they were a good thing and have made us better farmers and better business people. We all like to give lip service to the fact that farming is big business, well big business requires lots of paperwork like financial statements, budgets, 5 year plans and many pages of evaluation and justification for current operations and future expansion. If we want to be recognized as good business people, then we must behave accordingly. This of course, requires many hours spent in record keeping, evaluation, and planning. I personally think this is where the computer industry has a great deal to offer. We don't have a computer to help us yet, but one is listed in our 5 year plan. So far, my information has been that each farmer's programs, or soft ware as they call it, must be designed individually with your particular land and resources programmed to give the best results.

One of the areas where we encountered problems with a corporation was when we applied for a Prairie Grain Advance in 1981. We only received half to which we were entitled because the shareholders were married to each other and were considered one entity. The corporation had produced the grain and qualified for a full advance, but they required personal guarantees from the shareholders and when they discovered we were husband and wife they cut our advance in half. This was a regulation of the Canadian Wheat Board and could only be changed by an act of Parliament. I went to work on this, and through a letter writing campaign over a $2\frac{1}{2}$ year period finally got it changed in the law, as of May of 1984. When we applied for our canola advance this fall, I received my share just like my husband. They even made it possible for three or more shareholders to receive up to $15,000 each to a maximum of $90,000 if each was actively involved in the farming corporation. This is just one example of

how the government, and other areas don't take us seriously as businesses and discriminate against married couples as farmers.

Another area of interest that I have learned through experience as a farmer and the bookkeeper for our corporation is my relationship and communication with our banks and lending institutions. In 1974 Bert and I decided to build a pivot irrigator on our farm. This was in an area which had not had any active irrigation farmers in 20 years. (At one time we had the northern most pivot irrigator in Canada.) When we approached our bank manager and the agriculture representative from our bank, they told us it would require a mortgage on our land to qualify for the money for the irrigator. Bert's parents worked many years to pay for our land and passed it on to us free and clear and we have always promised ourselves and them that we will not mortgage the land, so we went investigating other areas of financing. We took a trip to irrigation country in Lethbridge and talked to a manager of our bank down there. He told us that it was policy in their area to loan money on irrigators as a chattel mortgage on a self-propelled machine just like Farm Improvement Loans on tractors or combines. We came back to Calgary and told our manager and he was absolutely amazed, but he sent our application downtown to head office and it was approved as a chattel mortgage only. Since then we paid off that one and have built another one under the same plan and have it paid off too. At that time, they also said that kind of loan required an insurance policy on Bert to be in effect, payable to our corporation for the sum of the loan. They were going to buy one for us and bill us annually for the premium. After checking around we found we could do it cheaper and with the same coverage. My reason for mentioning this is that through stubbornness and investigations on our part, we found that the banks have a tendency to oversecure loans and the local bank manager may not know all the possible ways or means of financing farm loans which can cost you more money if you don't question him. When the Small Business Development Bonds first came out, farmers were not made aware of them or their availability. They were led to believe they were only for small businesses of $5,000,000 or less in sales and farmers were not considered to be in the category, but corporation farms qualified. Consequently, we had our SBDB before others in agriculture, and before they expanded the program

to include family farms as well.

As recently as this fall, we asked our bank for fixed interest rates for a loan for a combine and they told us they didn't think they were available, but they would ask head office. As it turned out, our assistant manager called and said yes they are available and have been for about two years, without mortgage, and for a period of up to 10 years with rates set at 3 to 5 year terms. We wouldn't have known about this unless we had asked. My point in all of this is that the banking institutions are in business just like all the rest of us and they have a product to sell, just like we do; it just happens to be money. Don't be intimidated by them. Ask questions and make them compete and deal for your business. Recently I learned that our particular bank is giving courses in marketing as the marketplace has refrained from borrowing and they aren't selling as much product as they used to.

I have also read of instances where banks do not consider the women shareholders or partners as separate entities and are unwilling to count their contributions to the farm as assets. By actual law in this country in the Canadian Human Rights Act, they cannot discriminate against women in the corporation and to consider them when loaning money. This is especially important if a woman's spouse dies suddenly and she has no bank signing privileges or papered rights to operation of the farm. Of course with these rights come responsibility. She must therefore make herself knowledgeable and aware of all aspects of the farming operation. It's only for her own protection in the event of sudden and tragic circumstances and will protect all that she and her spouse have spent many years acquiring.

This leads me to the next area of concern -- personal guarantees. Remember when you sign them that they are all encompassing and lay claim on any of your personal wealth even to your estate. If you have to sign them, do it with caution and only with stated limits on the form. Banks are becoming more aware of the fact that women partners should also sign guarantees and are asking for them more frequently. When your bank asks for any new forms to be signed, take them home, read them carefully, think about them for a while, read them again, and then if you still don't understand, take them to a lawyer or

someone who can help you. Don't misunderstand me, the banks aren't bad guys trying to cheat you or lead you astray; they are just protecting their interests with all their many forms, and you should protect your own interests by understanding all the implications of those forms. So don't provide security that you don't have to!

Another area where we have found great help is record keeping. My family has teased me a lot about my daily diary, but it has helped to trace information over the years and settled many arguments as to when we did what on the farm. I believe a daily journal on the farm is as important as a ship's log and keep it carefully. It gives you a frame of reference through the years and an analysis of how you feel you are progressing. Remember, through history, we learn to handle the future. We also keep detailed records on cattle, seeding dates, rates and fertilizer and moisture conditions. We were a test group for specialty crop plots, fertilizer rates under irrigation, depths of soil moisture and evaporation rates of irrigation for many years. At times it was inconvenient and a pain in the backside, but we learned many things about our particular farm and area and are more efficient farmers because of all these records. Once again, remember-- farming is big business -- and all good businesses keep records and have a research and development arm for improvement.

Communication in a farming operation is vital to every member. Of course the husband should tell his wife in which field to pick him up for dinner and where to bring the lunches during harvest, but there are other areas too. You must sit down and discuss all of the different areas of your operation and plans. The cash and expense predictions should be done together so everyone understands the plans for the coming year. Do it as a team and you share the joys as well as the burdens and they in turn become more bearable. We have found that some kind of radio system saves many needless trips and hours of frustration for all concerned. At harvest, seeding or calving we need to be as efficient with our time as possible and radios save some of this time to be used in other areas.

Last, but not least, as everyone here recognizes, it is important to attend seminars, workshops, and professional meetings as often as possible. Here is where you learn new methods of farming and

and share your own personal experiences to do a better job. In the seminar environment you learn formally but also in the bull sessions and social times after class. We can profit from other people's mistakes as well as their timely innovations. This area also includes attending your local Wheat Pool Meetings, farm organizations, and marketing groups. Don't complain about a problem in grain handling if you are not willing to go to the meeting and contribute in the solution.

In summation I would like to say that in the depressed agriculture economy of today, we must be super hard working, willing to sacrifice some of our pleasures for the future, and smarter than we have ever been before. I hope my experiences have given you some new insights and ways to cope with the problems facing us as farmers. Of course our greatest problem is adequate return for our production, and the only way to solve that one is to make the importance of Agriculture to Canada visible and tangible to our federal government and never stop until they understand where they would be without us. In 1983 the Gross National Product of Canada was $330 billion. Forty per cent of that or $133 billion was generated by our Agri-food industry. In 1977 Canadian Agriculture was carrying a $4.5 billion debt; today it is $24 billion. Farmers everywhere need to bring these facts into the consciousness of the public so we can find a solution. In short, we have an important story to tell, so let's get on with it.